

violations of laws and regulations. Entity assets also include cash (imprest funds), aircraft materials and supplies, and property and equipment, net of depreciation.

Entity liabilities are incurred during the operations of the Bureau's mission. Liabilities that have been funded by appropriations include accounts payable to vendors, employees, and other government agencies as well as accrued payroll expenses as of September 30, 1995. Unfunded liabilities that will be paid through future appropriations include employees' claims for leave and workers' compensation benefits as well as future capital lease and contingent liability payments.

Non-Entity Assets and Liabilities

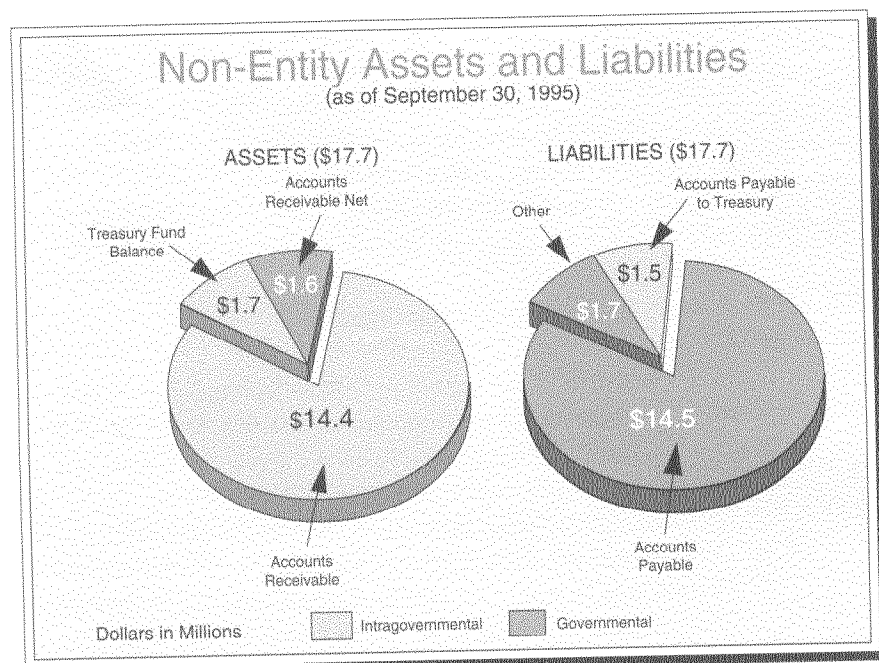
Non-entity assets are related primarily to the Bureau's revenue collection function for the Federal Government. Components of intragovernmental non-entity assets include fund balance with Treasury and accounts receivable (funds) due to ATF from the Treasury to refund certain excise tax and license fee claims. Governmental non-entity assets consist of accounts receivable less amounts deemed uncollectible. These receivables include outstanding

excise and Special Occupational Taxes, fees, fines, penalties and interest that have been assessed and remain unpaid at year end.

Non-entity liabilities are primarily governmental and relate to the Bureau's custodial function for revenue collection. Amounts include accrued accounts payable to refund taxpayers for claims approved by ATF but not disbursed as of September 30, 1995, as well as amounts held in escrow for cash bonds and offers-in-compromise. Intragovernmental liabilities represent taxes which will be transferred to the U.S. Treasury when collected.

Revenue Management

ATF ensures the collection of Federal Excise Tax and protection of the revenue through a system of laws, regulations, tax returns, permits, bonds, and disbursement (refund) functions in accordance with Internal Revenue Code of 1986. The Bureau collects, records and accounts for a variety of taxes and registration and license fees from the alcohol, tobacco, firearms, ammunition and explosives industries. *None of the non-entity revenue collected by ATF is used in any Bureau operations; all funds are transferred to the U. S. Treasury or other federal agencies for further distribution in accordance with various laws and regulations.*

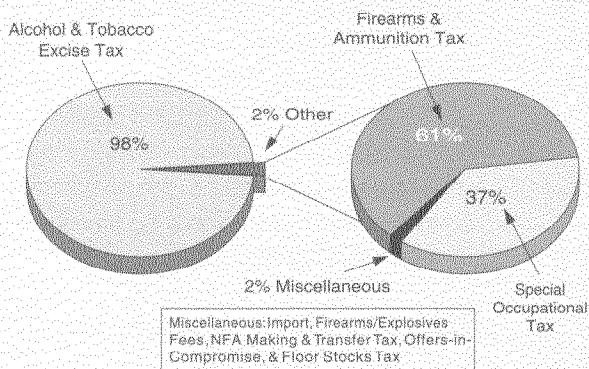


Revenue Sources

Alcohol and Tobacco Excise Tax

ATF collects taxes from manufacturers of alcohol and tobacco products. The taxes are generally levied at the manufacturer level when products are removed from the business premises. For FY 1995, the Bureau collected \$12.9 billion in excise taxes on alcohol and tobacco products.

REVENUE TAX AND FEE COLLECTION \$13.2 Billion Collected



Gross Collections Before Refund Disbursements

Firearms and Ammunition Tax

Section 4181 of the Internal Revenue Code imposes taxes on the sale or use of firearms and ammunition by the manufacturer, producer, or importer of the article. ATF assumed the responsibility for collection of the firearms and ammunition excise tax from the Internal Revenue Service in January 1991. ATF collected \$186.6 million in excise taxes on firearms and ammunition sales in FY 1995. The Pittman-Robertson Wildlife Restoration Act of 1937 requires that the entire revenue (less refund payments) collected from Federal firearms and ammunition excise taxes be transferred to the Interior Department's Federal Aid to Wildlife Restoration Fund to support their mission.

Special Occupational Tax

ATF collects the Special Occupational Tax imposed by Section 5121 of the Internal Revenue Code on certain alcohol, tobacco and firearms businesses. This tax is due annually on July 1, and is applicable to producers, wholesalers, and retailers of alcohol beverages, manufacturers of tobacco products, and dealers/users of industrial alcohol, as well as to

importers, manufacturers, and dealers in National Firearms Act firearms (e.g., machine guns). For FY 1995, \$111 million was generated in Special Occupational Taxes.

Import Tax and Fees Firearms/Explosives Fees

The Bureau collects registration fees from persons engaged in importing firearms, ammunition, and implements of war as mandated by the Arms Export Control Act.

ATF's licensing center in Atlanta, Georgia processes applications for firearms licenses (to manufacture, import, deal in, and collect firearms) and explosives licenses (to manufacture, import, deal in, and use explosives).

Combined collections for these taxes and fees were \$4.1 million in FY 1995.

National Firearms Act Making and Transfer Tax

Additional taxes are imposed on the making and transferring of Title II firearms by persons not subject to the Special Occupational Tax. (Title II firearms include machine guns, short-barreled rifles or shotguns, silencers, and destructive devices.) The Bureau collected \$1.3 million in National Firearms Act Making and Transfer Taxes during FY 1995.

Offers-in-Compromise

The Bureau negotiates offers-in-compromise for receivables such as taxes, penalties, interest, and fees that have already been assessed but not collected due to taxpayer inability to pay. Additionally, the Federal Alcohol Administration Act imposes monetary penalties for violations of trade practices, labeling, or advertising by beverage alcohol businesses. Under certain circumstances, ATF accepts these reduced offers of payments from

Taxes are presented as "gross" collections before refunds and include related interest and penalties.

assessed parties rather than write off the entire assessed amount due as uncollectible. For FY 1995, the Bureau collected \$423 thousand in offers-in-compromise.

Floor Stock Tax

Collection of a "floor stocks tax" is generally required when an excise tax is first imposed or increased on a particular commodity. The manufacturer, importer, distributor, or retailer must inventory the commodity on-hand as of the effective date of the legislation and pay any incremental taxes on these goods in inventory. In FY 1995, the Bureau collected \$239 thousand in floor stock taxes.

Disbursement of Taxes and Fees

In addition to collecting revenue, ATF makes various types of disbursements for taxes and fees paid to the Federal Government. *Disbursement amounts include accounts payable accrued as of September 30, 1995.*

Manufacturers of Non-Beverage Products

Taxpayers may file claims to recover (drawback) all but \$1 per proof gallon on excise taxes paid on distilled spirits used in the manufacture or production of medicines, medicinal preparations, food products, flavors, or flavoring extracts which are unfit for beverage purposes. For FY 1995, \$235.2 million was refunded to taxpayers as drawback for taxes paid on alcohol used in non-beverage alcohol products.

Cover Over Payments to Puerto Rico and the Virgin Islands

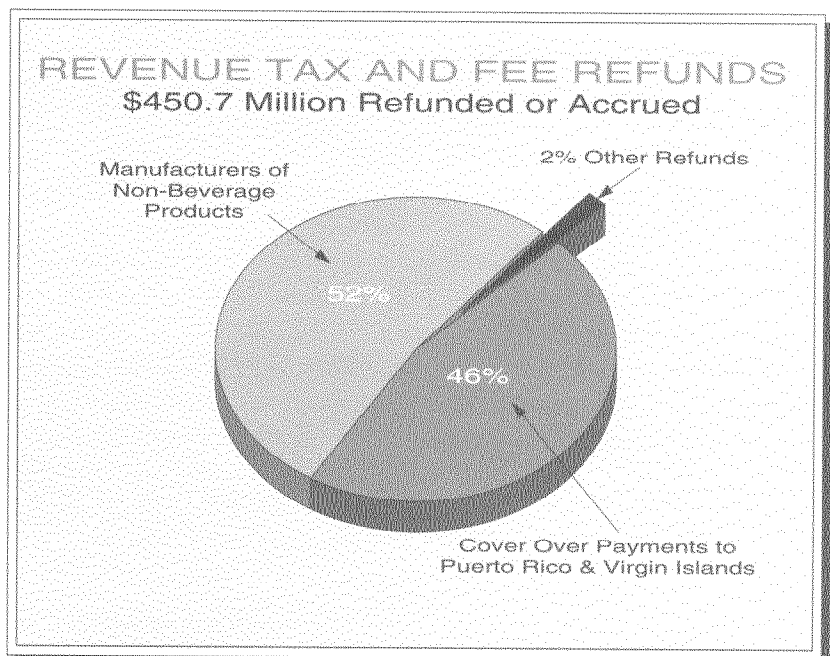
The Internal Revenue Code of 1986, as amended (26 U.S.C. 5314 and 7652) provides that taxes collected on articles produced in Puerto Rico and the Virgin Islands transported to the United States (less the estimated amount necessary for payment of refunds and drawbacks) shall be covered over (paid to) to the treasuries of Puerto Rico and the Virgin Islands.

ATF has the responsibility for assuring the collection of these taxes on distilled spirits, wine, beer and tobacco products, and for determining the amounts to be paid to the insular governments.

The Treasury of Puerto Rico is paid directly from the excise taxes collected by ATF on a monthly basis. Excise tax payments are based on Secretary of the Treasury approved prescribed formulae for bulk and cased imported distilled spirits from Puerto Rico. Excise tax payments generated from rum imports from other foreign sources is also paid directly to the treasuries of the Virgin Islands and Puerto Rico on a monthly basis.

The Government of the Virgin Islands receives a fiscal year advance of funds based on agreed upon domestic rum production estimates made by their treasury and the U.S. Department of the Interior. ATF provides actual tax payment and usage data to the Department of the Interior on a monthly basis to ensure that the Government of the Virgin Islands receives full payment.

Disbursements to the governments of Puerto Rico and the Virgin Islands totaled \$207.7 million in FY 1995.



Other Refunds

ATF refunds fees paid in advance by those applicants who do not meet the criteria to qualify for a license or permit. Additional refunds are made for approved taxpayer claims of overpayment in all categories of revenue. ATF refunded \$7.8 million in FY 1995 for these claims.

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT HIGHLIGHTS

The Bureau centrally manages the Federal Managers' Financial Integrity Act (FMFIA) program, with oversight responsibilities assigned to the CFO. However, each executive office maintains responsibility for a cost-effective system of controls to provide reasonable assurance that government resources are protected against fraud, waste, abuse, mismanagement, or misappropriation. The Executive Staff's responsibilities include ensuring that new and existing programs and administrative support activities are managed effectively and efficiently. All Executive Staff members and managers are accountable for safeguarding resources and are evaluated as financial managers.

The Bureau executed a multifaceted approach to strengthen management controls in FY 1995. The approach included emphasis on improving organization, policies and procedures, and systems.

Organization

During FY 1995, the Headquarters restructuring was completed with two primary objectives:

- coordinating policy and program development and field implementation of operational strategies in all main mission programs; and
- making ATF a model Government organization that embodies strategic planning and quality management, while at the same time creating a more flexible organizational structure.

Policies and Procedures

CFO Process Teams drafted detailed plans to correct process weaknesses, improve processes, and develop new procedures. The Internal Controls Team performed a review of the Office of Enforcement's aircraft operations. The team recommended implementing a process to validate missions flown, establishing a property management and parts tracking system, documenting operating procedures, and enhancing facility security. The Bureau initiated corrective actions to address the recommendations.

During FY 1995, the Bureau conducted an intensive training program to heighten the awareness level of managers and supervisors regarding internal control responsibilities. ATF revised management control policy guides; incorporated management control responsibilities into the critical elements for all managers; and assigned additional staff to assist with field internal control validation reviews.

Systems

At ATF's request, the National Security Agency conducted a comprehensive review of ATF's information systems; and the Bureau completed internal risk analyses on several sensitive ADP information subsystems. Installation of virus detection software for personal computers began in FY 1995. Efforts are underway to place all work stations within the Bureau under a centralized network to enhance data security and provide standardized software suites for all users.

The Bureau continued efforts to obtain an automated worker's compensation system, which would be on-line with the Department of Labor. Implementation of this system would permit ATF to eliminate time consuming manual correspondence with the Department of Labor and access claimant data within thirty minutes of receiving a request from the employee or the medical provider. The system will assist tracking of payment elements, resolving billing discrepancies, settling third party claims and targeting employees for gainful employment to reduce compensation costs.

Planned enhancements to the present FMIS will move the Bureau towards a single financial management system with one-time data entry for financial transactions. This will enhance ATF's ability to provide a reasonable level of assurance that FMIS information is reliable and timely and meets the Government's Joint Financial Management Information Program system requirements.

1995 FMFIA STATUS

ATF's FY 1995 annual statement of assurance to the Secretary of the Treasury indicated, with qualification, that the Bureau could reasonably assure that:

- obligations and costs are in compliance with applicable laws and assets are safeguarded;
- operational revenues and expenditures are properly recorded and accounted for;
- and accounting systems conform to the Comptroller General's accounting principles and standards.

The "qualified" reasonable assurance was based on the continued need to correct outstanding deficiencies, to formally validate the deficiencies that were corrected in FY 1995, and to obtain feedback regarding the Bureau's internal control structure from the financial statement audit process.

There were no new FMFIA deficiencies identified during FY 1995 and the Bureau corrected three of five deficiencies cited in last year's FMFIA Report. Two remaining deficiencies are still pending, including a carryover deficiency identified in the FY 1988 FMFIA review. Following is a status of each deficiency:

- Title and Description: "Federal Manager's Financial Integrity Act (FMFIA) Program Effectiveness." ATF's FY 1994 process did not identify the full extent of its internal control and accounting system weaknesses. Program managers were not fully aware of their FMFIA responsibilities. Therefore, the internal control process lacked adequate individual program and operating level self-assessment. Further, pending deficiencies were not being corrected in a timely manner. Year Identified: 1994.
- Status and Accomplishments: Corrected, pending validation. Designated the Deputy Assistant Director (Management) as the Bureau Internal Control Officer; revised ATF Order 1300.5B, "Internal Control Improvement Process;" hired an additional employee to assist with field internal control validation reviews; conducted Bureau-wide training on management controls; and executed risk assessments on approximately 50 assessable units.
- Title and Description: "Lack of Information Systems Security Program." In a review of information systems, the Department of the Treasury found a lack of evidence for information security plans or planning efforts, as well as for central policy-making, administration, and enforcement of security within ATF. Year Identified: 1993.
- Status and Accomplishments: A proposal has been prepared that outlines a method of implementing an Information Systems Security Program. Included in the development of this program in the completion of security plans for major systems. ATF has hired a program manager to oversee and implement the policy and to fully document the Information Systems Security Program.
- Title and Description: "Non-compliance with Social Security (FICA) withholding on permanent change of station move reimbursements." The ATF Relocation Office did not withhold Social Security (FICA) taxes on employees' allowable expense reimbursements, which are considered as income, for permanent change of station moves. However, Federal taxes were withheld. Year Identified: 1994.
- Status and Accomplishments: Corrected, pending validation. Reprogrammed all related databases to withhold FICA taxes and generate withholding statements with FICA information. Beginning calendar year 1995, FICA taxes for appropriate permanent change of station moves were withheld.
- Title and Description: "Inadequate Reconciliation of Accounting Records." In preparation for producing auditable financial statements, the Department of the Treasury Office of Inspector General conducted a survey which identified

reconciliation of accounting records as a deficiency in several financial event cycles. Year Identified: 1994.

- Status and Accomplishments: Corrective actions completed with validation accomplished through the FY 1995 financial statement audit process. Inventoried and recorded 100% of the aircraft and materials and supplies for the Bureau's aircraft operations; developed necessary procedures and completed required subsidiary and general ledger account reconciliations in most administrative and revenue accounting areas; completed conversion of all seized property records to the Department of Justice Consolidated Asset Tracking System (CATS); performed a full reconciliation between CATS and all physical inventory records; and reconciled all capital assets with the Bureau's general ledger.
- Title and Description: "Compliance Operations Revenue Accounting System." Title since changed to Integrated Collection System (ICS). ICS is not fully integrated with the Bureau's core revenue accounting system (FMIS). The lack of an integrated system hinders the ability to expeditiously and effectively reconcile summary accounting and individual transaction data. Year Identified: 1988.
- Status and Accomplishments: Pending corrective actions. Accounting for revenue collections and disbursements is fully integrated with the FMIS and under one general ledger with administrative accounting (*since FY 1994*). Work remains on integrating the FMIS with subsidiary tax and fee databases, which will comprise the ICS when fully developed. Validation of accounts receivable occurred during FY 1995. Software is being developed and tested that will enable the reconciliation of FMIS accounting data with regulatory tax and fee databases for refund claims and cover over payments in FY 1996. Development of an entire revenue system with full integration of program management and accounting functions is a long-term effort currently anticipated to be completed by FY 1999.

MANAGEMENT RESPONSIBILITIES

Bureau management is responsible for the fair presentation of information contained in the principal financial statements, in conformity with the accounting hierarchy described in Note 1, Summary of Significant Accounting Policies, which constitutes an "other comprehensive basis of accounting." Management is also responsible for the fair presentation of ATF's performance measures in accordance with Office of Management and Budget requirements. The quality of the Bureau's internal control structure rests with management, as well as the responsibility for identification and compliance with pertinent laws and regulations.

LIMITATION OF FINANCIAL STATEMENTS

The financial statements were prepared to report the financial position and results of operations of ATF, pursuant to the requirements of the CFO Act of 1990.

The Bureau prepared the statements from the books and records of ATF according to formats prescribed by the Office of Management and Budget. However, these statements differ from the financial reports used to monitor and control budgetary resources that are prepared from the same books and records.

The statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

